Saskatchewan
Finance

Annual Report 2004

Public Employees Disability Income Fund

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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

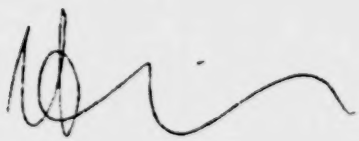
Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the fourteenth Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2004.

I have the honour to be, Madam,

Your obedient servant,



Harry Van Mulligen
Minister of Finance

Saskatchewan
Public Employees
Benefits Agency

The Honourable Harry Van Mulligen
Minister of Finance
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the fourteenth Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2004.

Respectfully submitted,

Brian Smith
Executive Director

Public Employees Disability Income Fund

Introduction

The Public Employees Disability Income Plan was established in 1978.

The Plan provides long-term disability benefits to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

As at December 31, 2004 there were approximately 11,605 insured employees.

DIP Advisory Council

Brian Smith, Chair
Saskatchewan Finance (PEBA)

Jeannie Essey
SaskPower

Brian Gyoerick
Public Service Commission

Susan Pander
SaskTel

Norma Reynolds
Public Service Commission

Bonnie Buckshaw
SaskEnergy
CEP Local 649

Charles Morgan
SaskTel
CEP Locals 15, 25 & 3

David Stevenson
Valley View Centre
CUPE Local 600-3

William Campbell
SaskPower
IBEW Local 2067

Participating Employers

The following employers participate in The Government of Saskatchewan Disability Income Plan:

Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)
Chief Electoral Office (Office of the)
Children's Advocate (Office of the)
Crown Investments Corporation of Saskatchewan
Farm Land Security Board
Information and Privacy Commissioner (Office of the)
Information Services Corporation of Saskatchewan
Leader of the Opposition (Office of the)
Legislative Assembly Office (Employees of the)
Legislative Counsel and Law Clerk (Office of the)
Legislative Library (Employees of the)
Liquor and Gaming Authority
Meewasin Valley Authority
Milk Control Board
NDP Caucus Office
Ombudsman (Office of the)
Power Greenhouses Inc.
Prairie Diagnostic Services
Prairie North Regional Health Authority
Provincial Auditor (Office of the)
Regina Qu'Appelle Regional Health Authority
Rentalsman (Office of the)
Saskatchewan Arts Board
Saskatchewan Assessment Management Agency
Saskatchewan Cancer Foundation
Saskatchewan Centre of the Arts
Saskatchewan Communications Network Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Film and Video Development Corporation
Saskatchewan Health Information Network
Saskatchewan Human Rights Commission
Saskatchewan Institute of Applied Science and Technology

Saskatchewan Municipal Board
Saskatchewan Party Caucus
Saskatchewan Power Corporation
Saskatchewan Property Management Corporation
Saskatchewan Telecommunications Holding Corporation
SaskEnergy Incorporated
Sask Pork
SecurTek Monitoring Solutions Inc.
St. Louis Alcoholism Rehabilitation Centre Inc.
Sun Country Regional Health Authority
Tourism Authority
TransGas Limited
Wakamow Valley Authority
Wanuskewin Heritage Park Authority
Wascana Centre Authority
Western Development Museums
Workers' Compensation Board (The)

The Government of Saskatchewan with respect to the following individuals:

Assistant Chief Electoral Officer
Chief Electoral Officer
Children's Advocate
Conflict of Interest Commissioner
Information and Privacy Commissioner
Legislative Assembly (Members of the)
Legislative Counsel and Law Clerk
Legislative Librarian
Members of the Public Service of Saskatchewan as defined by *The Public Service Act, 1998* excluding employees covered by the Saskatchewan Government and General Employees' Union
Ombudsman
Provincial Auditor
Rentalsman
Supervising justice of the peace, appointed under section 3 of *The Justices of the Peace, Act, 1988*

Administration

The Public Employees Disability Income Plan is self-insured and is managed by the Public Employees Benefits Agency, Saskatchewan Finance.

The Disability Income Plan Advisory Council has been established under Section 16 of *The Government Organization Act* and is comprised of an equal number of management and union representatives appointed by Minister's Order.

The Co-operators Life Insurance Company is on contract under an Administrative Services Only agreement to provide claims adjudication and benefit payment to the Plan.

The Occupational Rehabilitation Group of Canada (ORGOC) and Northern Rehabilitation and Consulting Services Inc. (NRCS) provide rehabilitation services to the Plan.

Investment Management Services

The Minister of Finance is authorized to invest money of the Disability Income Fund in any securities authorized for investment under the "Investment Policy Guidelines".

Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to Co-operators Investment Counselling Limited.

Funding

Prior to June 1, 1994, funding for the Plan was at a rate of .96% of an employee's basic monthly salary cost shared equally. Effective June 1, 1994, funding for the plan is at a rate of 1.02% of an employee's basic monthly salary cost-shared as follows:

.48% salary - employee share
.48% salary - employer share
.06% salary - employer share to fund pension contributions

Several employers pay the full 1.02% premium on behalf of their employees.

Benefits

After serving a Qualifying Period of 119 calendar days, the gross monthly disability benefit is equal to 75% of pre-disability basic monthly salary.

Benefits are initially payable while an employee is occupationally disabled (unable to work at his/her own occupation). This period covers 24 months from the date of disability.

Thereafter, the employee must be totally disabled from any reasonable occupation for benefits to continue.

Benefits will continue under the total disability provision until the earlier of return to work, death, age 65 or retirement.

Premiums/Claims Experience

	Dec. 31, 2004	Dec. 31, 2003
Premiums	$6,485,341	$6,431,156
Claims	$5,955,278	$6,322,492
# Active Claims	225	221

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Public Employees Disability Income Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

The actuary has prepared a valuation report on the provision for claims payable of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management, has been used in the preparation of the financial statements.

We believe the Public Employees Disability Income Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian generally accepted accounting principles.

The Disability Income Plan Advisory Council was established in 1978 and is comprised of an equal number of management and labour representatives. It is responsible for reviewing policies and procedures governing the operations of the Disability Income Plan, address appeals where benefits have been declined by the insurance carrier and oversee management of the investment fund.

We enclose the financial statements of the Public Employees Disability Income Fund for the year ended December 31, 2004 and the Provincial Auditor's report on these financial statements.

Brian Smith
Executive Director
Public Employees Benefits Agency

Perry Bahr
Director, Benefit Programs
Public Employees Benefits Agency

Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
March 14, 2005, except
as to Note 4 which is as of
April 11, 2005

ACTUARIES' OPINION

With respect to the Public Employees Disability Income Plan, we have prepared an actuarial valuation as at December 31, 2004 for the purpose of determining the necessary actuarial information for financial statement reporting. In my opinion, for the purpose of this actuarial valuation:

- the data on which this valuation is based are sufficient and reliable;
- where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered an opinion on them; however, in my opinion, the assumptions are, in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the valuation; and
- the actuarial cost methods employed are appropriate.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.

David R. Larsen, FSA, FCIA
Aon Consulting Inc.

April 11, 2005

PUBLIC EMPLOYEES DISABILITY INCOME FUND

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Public Employees Disability Income Fund as at December 31, 2004 and the statements of operations and net assets, and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Wendel, CMA, CA
Provincial Auditor

Regina, Saskatchewan
March 14, 2005, except
as to Note 4 which is as of
April 11, 2005

PUBLIC EMPLOYEES DISABILITY INCOME FUND
STATEMENT OF FINANCIAL POSITION

STATEMENT 1

AS AT DECEMBER 31

ASSETS	**2004**	**2003**
Current Assets:		
Cash	$ 83	$ 95
Accounts receivable (Note 9)	341,457	328,826
Receivable from Co-operators Life Insurance Company (Notes 3 and 9)	289,004	514,003
	630,544	842,924
Due from Co-operators Life Insurance Company (Note 2c)	62,989,336	57,862,249
Total assets	$63,619,880	$58,705,173
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable (Note 9)	$ 38,275	$ 61,010
Provision for claims payable (Note 4)	49,434,000	47,387,000
Total Liabilities	49,472,275	47,448,010
NET ASSETS (Statement 2)	14,147,605	11,257,163
TOTAL LIABILITIES AND NET ASSETS	$63,619,880	$58,705,173

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES DISABILITY INCOME FUND
STATEMENT OF OPERATIONS AND NET ASSETS

STATEMENT 2

YEAR ENDED DECEMBER 31

	2004		2003
	Budget (Note 10)	Actual	Actual
REVENUE			
Premiums	$ 6,603,369	$ 6,485,341	$ 6,431,156
Investment Income	3,710,125	5,402,493	5,484,046
	10,313,494	11,887,834	11,915,202
EXPENSE			
Disability benefits	6,484,241	5,955,278	6,322,492
Change in provision for claims payable (Note 4)	-	2,047,000	5,503,000
Administration (Note 5)	766,536	549,534	637,833
Adjudication fees	361,449	281,413	269,842
Management fees (Note 6)	154,886	164,167	145,775
	7,767,112	8,997,392	12,878,942
Surplus (Deficit) for the year	2,546,382	2,890,442	(963,740)
NET ASSETS, BEGINNING OF YEAR	11,257,163	11,257,163	12,220,903
NET ASSETS, END OF YEAR - Statement 1	$13,803,545	$14,147,605	$11,257,163

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES DISABILITY INCOME FUND **STATEMENT 3**
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

	2004	2003
Cash flows from (used in) operating activities:		
Premiums received	$ 6,695,651	$ 6,387,425
Disability benefits paid	(5,958,727)	(6,326,041)
Administration expenses paid	(569,449)	(752,978)
Adjudication fees paid	(278,726)	(269,294)
Management fees paid	(164,167)	(145,775)
	(275,418)	(1,106,663)
Cash flows from (used in) investing activities:		
Proceeds from sale of investments	5,402,493	5,484,046
Purchase of investments	(5,127,087)	(4,377,694)
	275,406	1,106,352
Net (decrease) in cash	(12)	(311)
CASH, BEGINNING OF YEAR	95	406
CASH, END OF YEAR	$ 83	$ 95

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES DISABILITY INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004

1. Description of Fund

The Public Employees Disability Income Fund (PEDIF) is a special purpose fund used to account for the premiums, claims, investment and administrative transactions of the Disability Income Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993.*

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides a level of income protection during periods of occupational or total disability. Plan participants are certain employees of the public service of the Province of Saskatchewan and Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Plan is administered under the terms of an agreement with the Co-operators Life Insurance Company.

Employees and employers pay premiums monthly. Employees contribute 0.48% of their basic monthly salary and employers contribute 0.54%, except for some plan participants where the employer pays 100%.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant.

a) Premiums revenue

Premiums are recognized as revenue when due.

b) Disability benefits expense

Disability benefits expense is recognized commencing in the year the claim occurred.

c) Due from Co-operators Life Insurance Company (Co-operators)

According to the agreement between PEBA and Co-operators, Co-operators has established a segregated fund for the investment of PEDIF monies. The balance in this segregated fund represents a debt due by Co-operators to PEDIF and is represented by the investments held in the segregated fund.

The segregated fund is valued at market and any increase/decrease in the value of the segregated fund is accounted for in the statement of operations and net assets as investment income.

Fair value of the segregated fund approximates its market value.

d) Provision for claims payable

The provision for claims payable represents the present value of future payments arising from claims made prior to year-end. This provision includes an estimated amount for claims incurred but not yet reported at year-end. The provision for claims payable is determined pursuant to an

actuarial valuation. Any resulting change in this liability is recognized as a revenue or expense in the statement of operations and net assets.

e) Cash

Cash consists of balances with the bank.

3. Receivable from Co-operators Life Insurance Company

According to the agreement between PEBA and Co-operators, Co-operators has established an account for receipt of PEDIF's premiums and payment of claims and administrative expenses. The balance in this account represents monies owing by Co-operators to PEDIF.

4. Provision for Claims Payable

An actuarial valuation was performed by Aon Consulting Inc. as at December 31, 2004 and as at December 31, 2003 to determine the liability for the future cost of existing claims of disabled members. The valuation includes a provision for claims incurred but not yet reported.

The actuarial valuation of claims as at December 31 and the principal components of the change in actuarial valuation during the year, were as follows:

	2004	2003
Actuarial valuation, beginning of year	$47,387,000	$41,884,000
Interest accrued on benefits	2,962,000	2,722,000
Mortality and termination experience (gain)	(6,586,000)	(2,917,000)
Change in assumptions	-	4,544,000
New claims	11,753,000	7,031,000
Expected benefits payments	(6,082,000)	(5,877,000)
Actuarial valuation, end of year	$49,434,000	$47,387,000

The valuation is based on the following assumptions: 1) the allowance for claim termination is based on the 1987 Group Long-Term Disability Valuation Tables published by the Society of Actuaries adjusted for experience; 2) the interest rate assumed is 6.25% (2003 – 6.25%); 3) a maximum 3% consumer price indexing of benefits before offsetting benefits from other agencies each year; 4) the inflation rate assumed is 3% for all future years.

The amount of benefits payable under the Disability Income Plan may be increased on October 1 each year. The increase in benefits is indexed, subject to a maximum of 3% per annum, to the Consumer Price Index for the year ending on the immediately preceding July 1.

If the valuation assumed no indexing of benefits each year, the liability at December 31, 2004 would be $40,752,000 (2003 - $38,978,000).

The liability for claims is based on a number of assumptions about future events including: recovery and mortality rates, interest rate and expected benefits from other sources. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate, cost of living adjustment and recovery rates.

- a 1% change in interest rate equals a 6.3% change in the liability including the cost of living adjustment

- a change in the cost of living adjustment of 1% equals a 6.5% change in the liability
- a 10% change in recovery rates equals a 4.7% change in the liability

The provision for claims payable is long term in nature and there is no market for settling these obligations. Therefore it is not practical to determine the fair value of the provision for claims payable.

5. Administration Expenses

The Public Employees Benefits Agency Revolving Fund administers the Public Employees Disability Income Fund for a mutually agreed upon fee. The Public Employees Disability Income Fund pays the annual administration fee to the Public Employees Benefits Agency Revolving Fund on agreed upon dates.

6. Management Fees

The Public Employees Benefits Agency invests money of the Disability Income Fund in any securities authorized for investment pursuant to the Fund's Statement of Investment Policies and Objectives.

Co-operators Life Insurance Company invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Life Insurance Company.

7. Legal

The Fund is a party to a number of lawsuits initiated by claimants relating to disability benefits. The ultimate outcome of these lawsuits is not yet determinable. Accordingly, no liability has been recorded in these financial statements. Liabilities arising from the resolution of these lawsuits will be accounted for in the year the lawsuits are settled.

8. Investment Performance

The Fund's investments are represented by the amounts due from Co-operators Life Insurance Company (see note 2). Following is a summary of the Fund's investment performance:

	2004	Four year annualized return
Fund (a)	9.3%	6.1%
Benchmark (b)	7.9%	4.1%

(a) The annual returns are before deducting investment expenses.

(b) The benchmark return is the Fund's target rate of return for its segregated fund. The benchmark return is calculated using actual returns and the Fund's planned investment portfolio for its segregated fund.

9. Fair Value of Financial Instruments

For the following financial instruments the fair value approximates their carrying value due to the immediate or short-term nature of these instruments:

(a) accounts receivable
(b) receivable from Co-operators Life Insurance Company, and
(c) accounts payable

The Fund is exposed to minimal credit risk from the potential non-payment of accounts receivable as most receivables are from government agencies and were collected shortly after year end.

10. Budget

PEBA prepares the budget for approval by the Disability Income Plan Advisory Council. The 2004 budget was approved on April 14, 2004.

11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". These transactions are recorded at agreed upon exchange amounts.

Due to the nature of the Fund, substantially all premiums are received from related parties.

At year-end, the following amounts were due to/from related parties as a result of the transactions referred to above:

	2004	2003
Accounts receivable	$279,431	$264,384
Accounts payable	$22,261	$42,176

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.